

SIERRA SYSTEMS GROUP INC.



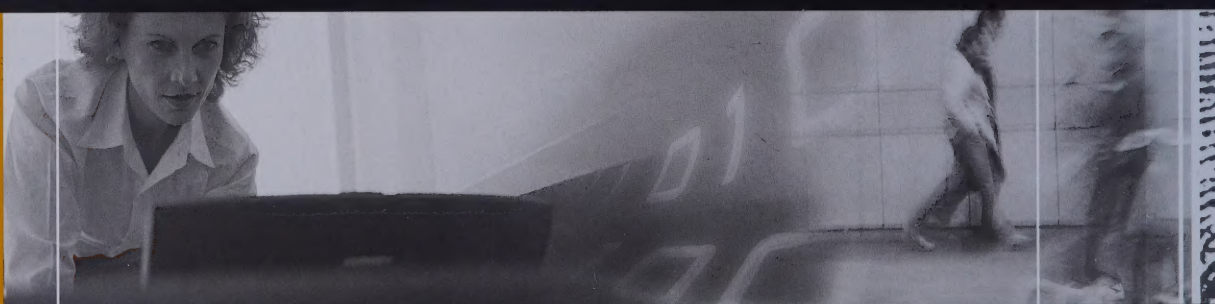
"There is reason to believe that industry results are improving. This is now my fourth complete cycle in this industry, and I see signs of longer-term strength such as tightening staff markets and a firming of prices."

IAN U. REID

President and
Chief Executive Officer

Our mission is **to improve the**
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clients by delivering superior
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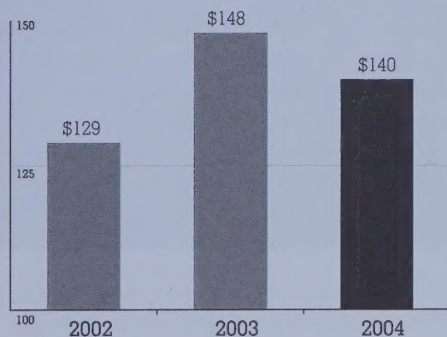
FINANCIAL SUMMARY

(all figures in thousands of Canadian dollars except per share figures)

	2002	2003	2004
Services Revenue	\$ 128,589	\$ 147,977	\$ 139,711
Earnings from operations before restructuring charge	3,068	6,599	1,367
Net earnings (loss)	1,688	1,417	(7,067)
Cash flow from operating activities	2,432	2,125	2,552
Shareholders' equity	61,389	62,931	57,061
Earnings (loss) per share	\$ 0.18	\$ 0.15	\$ (0.73)

SERVICES REVENUE

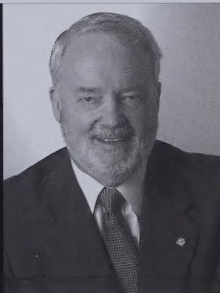
(\$millions)



EARNINGS (LOSS) PER SHARE



PRESIDENT'S MESSAGE



I will use this space to outline what I see as the qualitative issues of the last year; the quantitative issues are covered in the Management Discussion and Analysis section. Along the way, I hope to communicate why I believe Sierra Systems is in a position to do well by giving some context around the business cycles that affect our industry.

Ian U. Reid
President and
Chief Executive Officer

It was a very disappointing year for us, especially in terms of Earnings per Share. A close look at the statements will show most of the loss was from a non cash write-off of potential tax benefits and the rest from restructuring costs. We made an operating profit before those charges. So a better year than it might appear, but still, not good.

Changes were made, starting when it was clear the expectations for the year were not going to be met. We made some staff reductions, some overhead cuts and some management changes with the result that the fourth quarter started to show the signs of recovery in operations. We think we are now in a position to get back to the above average financial position we have traditionally enjoyed.

But financial discipline is not a sufficient condition for success by itself. There must be great people, innovative services and a drive to execute for profitable growth. Here, we are richly endowed.

First, staff who have been with us for only a few months have commented that Sierra Systems has managed to create a culture of "do the right thing for the client." This is not lip service, it is the actual test used when dealing with complex issues or decisions. Of course, we may get heated debate about what exactly is the right thing, but clients and Sierra Systems both gain when this is everyone's starting point. I should point out that "doing the right thing" does not neglect our responsibility to being profitable.

Second, our innovative service offerings represent an evolution over the years. In the early days we offered low-risk technical advice. Today we offer complex, high-risk, fixed-price business application development and support projects. Along the way, we found that services which evolved from our core competencies tended to be the most successful. Our goal was always to provide the services our clients wanted before they were generally available, but after we knew how to provide them successfully. Our decentralized approach keeps our decision-making close to our clients and enables us to fulfill our goal, while evolving our services incrementally in response to demand.

Third, our people are motivated to execute. We have innovative team-building compensation plans unique to our industry. We are a much sought-after place of employment, ranking among Canada's Top 100 Employers for the fifth year in a row. More importantly, our culture is focused on providing successful applications for clients, not just providing advice from the sidelines.

A good example of these factors working together is the fast growing area of Application Management Services (AMS). Our approach separates the infrastructure supplier from the application support and software services to make sure specialized competence is always applied. Typically, the focus is in one or another of our practice areas. Our people must have an in-depth understanding of the clients' business. No two situations are identical and successful execution is where the profit lies.

We have had major project successes this year, including some that are leading to significant AMS contracts. But rather than list our many great projects, I'd like to talk about a key value of the company in dealing with those projects.

We don't walk away. We always make our projects work even if we lose money on them.

But financial discipline is not a sufficient condition for success by itself. There must be great people, innovative services and a drive to execute for profitable growth. Here, we are richly endowed.

Over the next few years, I expect we will stay focused on our basics, namely successful project execution and organic growth.

Our people know this. Our long-term clients know this. And that is a big part of why they are long-term clients. And it pressures us to get it right in the first place because it is so costly to fix later for both the people and the budget. We're not yet perfect, but we are getting better year by year.

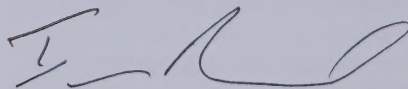
Over the next few years, I expect we will stay focused on our basics, namely successful project execution and organic growth.

No transition period is painless. This past year we have been forced to part ways with some very good people, to shut the Washington DC office, and to restructure management to reduce layers of corporate reporting. This was unpleasant but essential. It is also over – subject to business conditions being roughly what we expect. The renewed emphasis on our traditional financial discipline should also contribute to steadily improving results over time.

The most notable change happened after our year-end. Grant Gisel, Chief Executive Officer since 1972, left the company. Sierra Systems today is largely the result of his strategic vision and values. Most of us will also miss Grant personally, including me, having been his business partner from 1972 until my retirement in 1999.

As I write, there is reason to believe that industry results are improving. This is now my fourth complete cycle in this industry, and I see signs of longer-term strength such as tightening staff markets and a firming of prices. These signs are encouraging but are not yet a certainty. As in past years, our success will have more to do with what we do, than with what happens to us.

In closing, I would like to thank our shareholders for sticking with us in difficult times. We at Sierra Systems are working hard to see that you are not disappointed in the future.



Ian U. Reid

President & Chief Executive Officer
December 10, 2004



ENABLING CLIENT SUCCESS

At Sierra Systems, our mission is to improve the operational performance of our clients by delivering superior information technology and business consulting services. Over the past 12 months we helped our clients gain measurable results from their information technology investments. From Justice, to Health, to Aerospace, Sierra Systems continues to deliver on its mission.

This year, by meeting our clients' goals – which have ranged from wide-scale information sharing to on-site automation – we are reminded that our success is based on how well we've improved their business and operations.

Some of our clients' improvements to their business and operations have included the following.

- For the first time, fifteen independent state-wide agencies started sharing information with each other through the entire criminal justice system, making each agency better while improving public safety
- The first California public health agency became certified-compliant with Health Insurance Portability and Accountability Act (HIPAA) legislation
- For the first time in Canada, a Canadian health region successfully integrated an electronic health record
- A million pages of technical updates, previously distributed on paper every quarter, were made available online to over two thousand customers worldwide
- The installation of a student registration system for a 25,000-student university increased responsiveness to students as well as productivity for university staff
- An inspection process changed from a 10-day paper trail to a one hour on-line, on-site process
- A business intelligence system paid for itself in a few months through improved revenue collection

Of course, we have some impressive results of our own that we are proud of.

- 90% of our clients responding to our client satisfaction survey say our performance was excellent or above average
- 95% or our employees agree or strongly agree that all factors considered, Sierra Systems is a good place to work
- We made Canada's Top 100 Employers list for the 5th straight year

Throughout this past year, and in moving forward, Sierra Systems continues to be committed to the success of our clients, our employees and our shareholders.

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MANAGEMENT DISCUSSION & ANALYSIS

December 10, 2004

This discussion and analysis of Sierra Systems Group Inc. ("Sierra Systems" or the "Company") should be read in conjunction with the consolidated financial statements and accompanying notes. The financial information reported herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is presented in Canadian dollars unless otherwise noted.

This discussion and analysis may contain forward-looking statements involving risks and uncertainties including, but not limited to, changes in the market and changes in the economy. Such statements reflect the Company's views at December 10, 2004 with respect to future events and are subject to certain risks, uncertainties and assumptions.

BUSINESS OVERVIEW

Sierra Systems delivers superior technology and business consulting services to clients in North America that improve their operational performance. Services fall into one of three types.

- Solutions Delivery, the development of custom systems and the implementation of packaged software;
- Business Consulting, the provision of advisory and support services such as project management and business and strategic planning; and
- Application Management, the support, maintenance and management of software applications.

These services are provided through geographically dispersed branches supported by common processes and shared support services. This model permits managed growth while keeping authority and responsibility with the client-focused operational teams that deliver our services.

Our strategy is to grow by:

- Maintaining service excellence for strong client retention and development;
- Maintaining a deep functional knowledge of our clients' businesses in focused market segments. These market segments are called Specialty Practices with branch-based subject matter experts available across the company;
- Providing a superior working environment to attract and retain highly talented people; and
- Leveraging Canadian development resources both within the Company in a remote software development environment and with the use of offshore resources as strategic partners.

FISCAL 2004 OVERVIEW

In fiscal 2004, the Company performed well in the Canadian marketplace, undertook an acquisition in Atlantic Canada and continued to under-perform in its U.S. operations. The latter led to a reassessment of our business operations and the valuation of related assets, specifically the accounting value of tax losses carried forward for offset against future income.

In March 2004, in light of continued losses and the outlook for the U.S. operations, Sierra Systems determined it most appropriate to record a valuation allowance of the income tax asset related to these losses. A charge of \$5.7 million was recorded in fiscal 2004.

The Company commenced modification of its business operations culminating in a restructuring in the fourth quarter. This included closing the Washington D.C. Branch, reducing its workforce and rationalizing its office space in California. A charge of \$2.6 million was recorded in the fourth quarter.

As described in note 3 of the financial statements, on January 1, 2004, the Company acquired all of the outstanding shares of two companies in Atlantic Canada.

MARKET SEGMENTATION

SPECIALTY PRACTICES

Sierra Systems has six vertical Specialty Practices – Justice, Health, Government, Telecommunications, Utilities, and Financial Services & Insurance. In these areas, the Company derives competitive advantage from deep functional knowledge of the client's area of business. The medium-term strategy is to focus on the first three practices and to leverage them across all branches. The Enterprise Solutions practice remains a cornerstone of our business and is seen as a horizontal Specialty Practice.

Justice – The Justice practice is divided into police, prosecution/public defense, courts, and correctional facilities. In fiscal 2004, Sierra Systems focused on police and courts records management systems. Revenue grew 18% to \$32.5 million from \$27.4 million in fiscal 2003. New contracts with the RCMP and Los Angeles Police Department were primary drivers of the growth. For fiscal 2005, revenue from this practice is expected to be consistent with 2004.

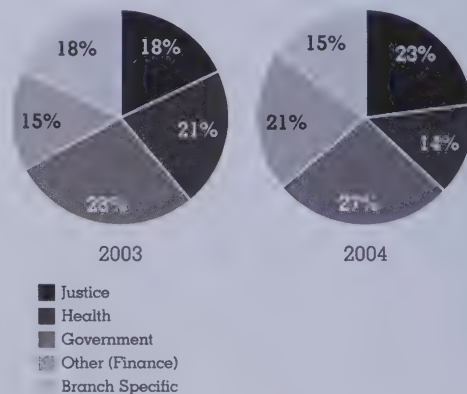
Health – Revenue in Health declined by 37% to \$20.2 million from \$32.1 million in fiscal 2003. This decrease was expected and due to the conclusion of a major project for the Department of Mental Health (DMH) in Los Angeles. This project was very significant both with respect to size and the short time frame in which it was delivered. The revenue from this project in fiscal 2004 was \$3.5 million as compared with \$15.0 million in fiscal 2003. The Health practice revenue in 2004 was focused at the provincial/county/state level, mainly in the area of health records management systems.

Government – All levels of government are challenged with connecting to their citizens and businesses and delivering services online. Sierra Systems' Government practice provides a significant diversity of services to these clients. Revenue in this practice decreased by 8% in 2004 to \$38.4 million, down from \$41.8 million in 2003. This revenue decrease can be attributed to the completion of projects throughout Canada. For fiscal 2005, revenue is expected to be stable.

Enterprise Solutions – Revenue for this practice decreased 10% to \$36.9 million in 2004 from \$40.9 million in 2003. The decline was consistent with the trend of the Company's overall revenue. In the past year, this practice has responded to market needs with an increased focus on the business consulting and business intelligence tools that assist clients to drive out the value proposition from their ERP investment. As such, we see the future of this practice underscoring the functional strength of our industry verticals.

Specialty Practices

(% of Revenue)

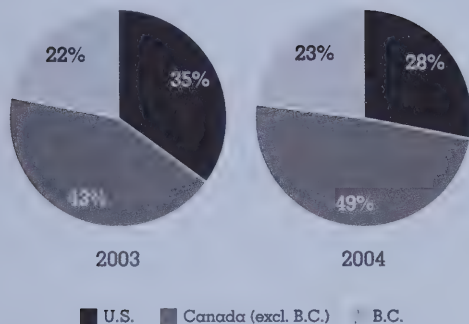


GEOGRAPHIC

Sierra Systems' strategy is to diversify from what has been its traditional client base in British Columbia. The medium-term strategy is to drive deeper market penetration into existing geographic locations and to augment further locations with Specialty Practice projects. In fiscal 2004, we experienced growth in Central Canada with strong demand in existing branches, particularly Toronto and Ottawa. The acquisitions based in Halifax increased revenue in Atlantic Canada. Revenue from the United States declined 13% from 2003.

Geography

(% of Revenue)

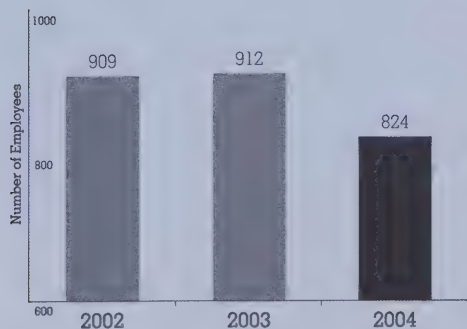


PRODUCT SALES

Product sales are nominal at less than 1% of total revenue. Sierra Systems does not build and sell its own licensed products. Therefore, product sales are a result of the resale of third-party products, usually as part of the delivery of an integrated systems solution. The margin on product sales declined marginally in fiscal 2004 to 17% from 18% in the prior year.

OPERATIONAL CAPABILITY

Total Headcount at Year End



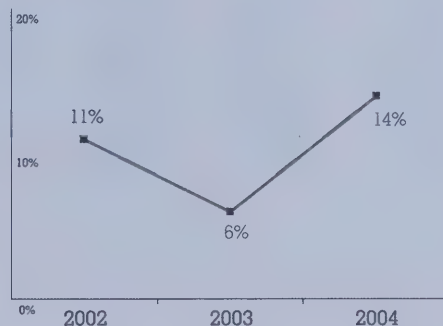
Sierra Systems' primary operational capability is through our employees. We believe that the best return on investment will be derived from a long-term commitment to this asset base. For

quality control purposes, it is essential to have experienced, capable resources trained in our methodologies and standards. This training requires a significant investment and is necessary to constantly upgrade staff skills. Our strategy, therefore, is to maintain this asset base during periods of lower demand to ensure that the capacity is in place for assured quality delivery.

The restructuring in September 2004 and realignment activities throughout the year offset the increase in headcount arising from the acquisitions. Total headcount decreased to 824; a drop of 10% from the prior year end headcount of 912. However, average billable headcount decreased by only 2% during fiscal 2004. Available hours decreased in line with average billable headcount.

The restructuring also had an effect on employee retention. The voluntary turnover metric increased to 14% in fiscal 2004 from 6% in fiscal 2003. Whereas the 2003 figure was ideal, the current level of turnover may be expected to be indicative of future levels.

Voluntary Headcount Turnover

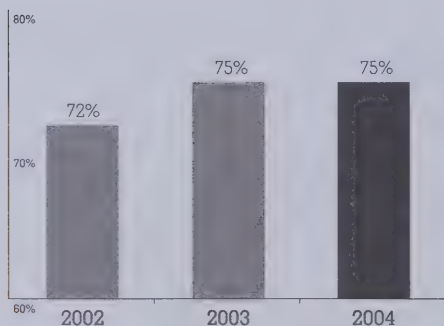


A key performance driver is utilization. Utilization is the ratio of hours charged to clients divided by available hours, expressed as a percentage. This gives an indication of under-utilized capacity. Simply put, compensation costs are essentially fixed. With higher utilization, higher revenue can be derived from the same employee base, leading to improved gross margins. However, other factors can affect this, such as fixed price overruns where employees may be working additional hours

on a project with no increase in revenue to the Company.

As expected, utilization remained stable at 75% in 2004, the same level as in 2003. This driver is very important to the Company because small movements can reflect significant increases in billable hours. The Company continues to seek ways to improve this key performance driver. Recent changes in the organizational structure of our U.S. operations have positioned resources more closely to expected demand. We also expect continued development of our nearshore service offering to provide additional markets to our Canadian development capability, providing a stable revenue stream to support a centralized development team.

Utilization



Subcontractors provide a significant extension of Sierra Systems' operational capacity. The Company will sometimes employ subcontractors to augment its available resource pool with specialized skills or build some flexibility in the resource pool to respond to peaks in delivery requirements. The cost of external consultants was stable in 2004 at 21% of total compensation costs when compared to 2003. In the past, costs in the 20% range were considered high. However, today this reflects a shift in our business model as we strive for more flexibility in management of resources and the related cost base. We anticipate this metric will continue to be in the range of 20-25% in the future.

There are also certain situations where the most cost-effective solution for our clients involves delivering components of the solution using offshore development resources. Although not a significant element of the business to date, we expect this will increase in the coming years and that strategic vendor partners will be the source of this capability.

RESULTS OF OPERATIONS

Fiscal 2004 was a challenging year for Sierra Systems. Services revenue, our primary business line, decreased 6% from 2003. The reduction was attributable to a number of factors. Revenue from U.S. operations declined \$8.7 million. The change in accounting treatment for Donna Cona in the fourth quarter of fiscal 2003 (as described in note 12 of the financial statements) resulted in a reduction of \$3.4 million. The strengthening of the Canadian dollar reduced revenue by a further \$3.8 million. Offsetting this was an increase in Canadian operations revenue of \$7.6 million, of which \$3.3 million was due to the acquisitions in the second quarter as described in note 3 of the financial statements.

Compensation costs are generally about 75% of total operating costs. These costs include salaries, incentive compensation, benefits, and vacation pay of our billable and operational support headcount. Sierra Systems has only a nominal dedicated sales force. Management consults, sells, and delivers contract assignments. The vacation pay is an accrual made as employees are working for the accrued vacation hours. This is used to offset the cost base when vacation days are taken. As noted above, under normal circumstances we strive to keep skilled employees in place even as market demand may temporarily slow. As a result, compensation costs tend to be largely fixed in nature. The significant restructuring and staff reductions in fiscal 2004 were an exception to our normal practice.

In fiscal 2004, compensation costs decreased 2% compared to 2003. The decrease was mainly a result of the strengthening of the Canadian dollar (\$2.5 million), the divestiture of Donna Cona (\$2.1 million), and the decrease in headcount from restructuring and realignment activities. However,

this decrease was offset by increases in salaries (resulting from the acquisitions and annual adjustments), benefits, and external consultants. A significant Company performance indicator is compensation costs as a percentage of services revenue. This indicator was weaker in 2004 (76% compared to 74%) due to lower services revenue.

As a percentage of Services Revenue

	2002	2003	2004
Compensation Costs	75	74	76
Other Costs	7	7	6
Gross Margin	18	20	18
G&A	13	13	14

Other costs are direct costs such as education, non-recoverable travel, promotion, and recruitment costs. These tend to be more variable in nature. A key performance indicator is the ratio of these costs expressed as a percentage of services revenue. This decreased in 2004 to 6% from 7% in fiscal 2003. Other costs decreased by 16%. The decrease was due to cost containment across the board in all activities.

General and administration ("G&A") costs consist of branch indirect overhead and administrative costs such as rent, office salaries, communications, and office supplies. Branch costs account for 67% of the total general and administration costs. Corporate general and administration costs, which mainly comprise centralized financial and support staff, public company costs, and audit and legal fees, account for the remainder. Rent and office salaries each represent approximately one third of general and administration costs. Therefore, these costs tend to be fixed in nature.

General and administration costs remained stable in 2004. Decreases in rent and communications costs were offset by increases in salaries, legal, and professional fees. Higher rental costs in 2003 were due to exit costs of \$0.4 million recorded in the fourth quarter of fiscal 2003 relating to the sub-lease of excess space in our California location. Further restructuring of office space executed in 2004 was recorded as a restructuring charge (see below). The key performance indicator of general

and administration costs as a percentage of services revenue, increased in fiscal 2004 to 14% from 13% in 2003 as a result of the decrease in services revenue.

The nature of the capital employed is discussed under Financial Capability. The amortization policy of the capital assets is described in note 2 of the financial statements. Amortization increased in 2004 due to the recognition of customer relationships as an intangible asset from the acquisitions and a full year's amortization of the favourable contract entered into with Donna Cona (note 4 of the financial statements).

Operating income before the restructuring charge decreased by 80% to \$1.4 million in 2004.

RESTRUCTURING

As stated in note 10 to the financial statements, a restructuring charge of \$2.6 million was incurred in 2004 due to the poor financial performance of the U.S. operations. As part of the restructuring, the Company gave notice to terminate its current Los Angeles lease space effective April 14, 2005, in order to pursue a more suitably sized space at a favourable rent. The Company incurred a termination fee of \$1.0 million of which 50%, or \$0.5 million was paid upon notice to the landlord in the fourth quarter of fiscal 2004. The balance is payable on or before April 14, 2005 and is included in accrued liabilities.

Other restructuring charges include the relocation of management personnel, staff reductions and the write-down and relocation of property and equipment. These activities were completed as of September 30, 2004, and the related unpaid balances are included in accrued liabilities.

TAXATION AND OTHER NON-OPERATING ITEMS

Sierra Systems' U.S. operations have sustained significant tax losses over the past five fiscal years. During fiscal 2004, given the outlook for the U.S. operations, and in line with current accounting practices, Sierra Systems determined it was appropriate to take a valuation allowance against the future income tax asset in relation to these losses. Therefore, a non-cash valuation allowance of \$5.7 million was recorded in 2004, as described

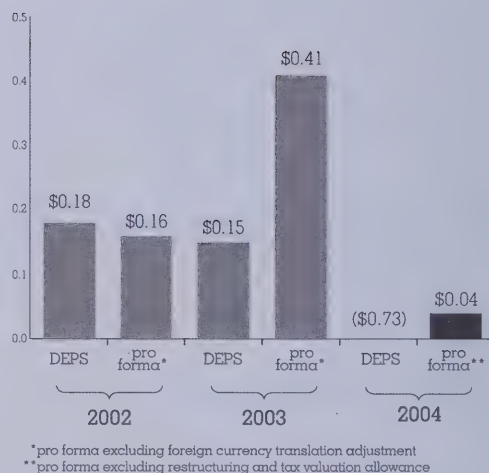
in note 8 of the financial statements. This allowance had a negative impact of \$0.59 on the earnings per share.

The effective tax rate on pro forma earnings before restructuring and tax allowances was 88%. Note 8 to the financial statements outlines the reasons for the difference from the expected effective tax rate of 36%. The valuation allowance will make the tax rate sensitive to profits from our U.S. operations as no provision will be recorded relating to income generated therein. The effective rate for operating income earned in fiscal 2005 is expected to be in the range of 39-41% assuming the U.S. operations break even. The effective rate will decline from this range as the U.S. operating income increases.

In fiscal 2004, the U.S. entities were reclassified as a self-sustaining foreign operation (see note 2 of the financial statements) as opposed to an integrated foreign operation. As a result, any translation gains or losses are now accounted for as a separate component of shareholders' equity. In fiscal 2003, this accounting treatment generated a foreign exchange loss of \$2.4 million. The Company's exposure to fluctuations in the U.S. dollar is discussed under Business Risks.

NON-GAAP FINANCIAL MEASURE

The following chart on earnings per share shows a pro forma of the earnings per share, after tax, without foreign currency translation adjustment, restructuring, and tax valuation allowance, all described above. The pro forma earnings per share is a non-GAAP financial measure and does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by our competitors. The pro forma earnings per share is presented to reflect (in management's view) comparability of earnings per share over the past three years.



Pro forma earnings per share reconciliation (excluding restructuring costs and related tax charge, and US tax valuation allowance)

GAAP (loss) per share	\$	(0.73)
Restructuring charge expressed on a per share basis	\$	0.18
Tax valuation allowance expressed on a per share basis	\$	0.59
Pro forma earnings per share	\$	0.04

CONDENSED FINANCIAL INFORMATION

The following table provides selected financial information (prepared in accordance with Canadian GAAP) for the years indicated. This selected information should be read together with the consolidated financial statements, including the related notes, contained in the Company's audited consolidated financial statements for the years ended September 30, 2004, 2003 and 2002.

CONDENSED FINANCIAL INFORMATION

Statement of Operations

Year ended September 30,

(In thousands, except per share amounts)

	2002	2003	2004
Revenue:			
Services	\$ 128,589	\$ 147,997	\$ 139,711
Product sales	1,363	2,923	1,166
Total revenues excluding reimbursements	\$ 129,952	\$ 150,920	\$ 140,877
Earnings (loss) before income taxes	3,435	4,285	(1,269)
Provision for income taxes	1,747	2,880	5,980
Equity earnings of Donna Cona Inc.	-	12	182
Net earnings (loss)	\$ 1,688	1,417	(7,067)
Basic and diluted earnings (loss) per share	\$ 0.18	\$ 0.15	\$ (0.73)

Balance Sheet

As at September 30,

(In thousands)

	2002	2003	2004
Net cash	\$ 6,315	\$ 3,793	\$ 833
Total current assets	49,539	44,786	40,333
Total assets	82,945	81,735	74,346
Total current liabilities	21,319	18,364	16,933
Total long-term financial liabilities	54	-	-
Total liabilities	21,556	18,804	17,285
Shareholders' equity	61,389	62,931	57,061

Summary of Changes to Shareholders' Equity

Year ended September 30,

(in thousands)

	2002	2003	2004
Shareholders' equity - Beginning of year	\$ 58,624	\$ 61,389	\$ 62,931
Net earnings (loss) for the year	1,688	1,417	(7,067)
Issue of capital stock	1,077	125	2,871
Change in cumulative translation adjustment	-	-	(1,674)
Shareholders' equity - End of year	\$ 61,389	\$ 62,931	\$ 57,061

OUTSTANDING SHARE INFORMATION AS AT DECEMBER 10, 2004

Authorized

Common shares	100,000,000
Preferred shares	50,000,000

Issued and outstanding

Common shares	9,757,567
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Options Outstanding

850,300

CONDENSED QUARTERLY FINANCIAL INFORMATION

The following table provides selected quarterly financial information for Sierra Systems' eight most recent quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in the opinion of management, necessary to present a fair statement of Sierra Systems' results of operations for the periods presented. Quarter-to-quarter comparisons of Sierra Systems' financial results are not necessarily meaningful and should not be relied upon as an indicator of future performance.

	Dec. 31, 2002	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003	Dec. 31, 2003	Mar. 31, 2004	Jun. 30, 2004	Sept. 30, 2004
(In thousands, except per share amounts)								
Revenue								
Services	\$ 36,495	\$ 37,351	\$ 38,701	\$ 35,450	\$ 32,336	\$ 38,036	\$ 36,098	\$ 33,241
Product sales	453	1,095	80	1,295	169	847	87	63
Total revenues excluding reimbursements	\$ 36,948	\$ 38,446	\$ 38,781	\$ 36,745	\$ 32,505	\$ 38,883	\$ 36,185	\$ 33,304
Earnings (loss) before income taxes	2,535	212	1,027	511	(1,231)	893	235	(1,166)
Provision for income taxes	1,103	605	985	187	(276)	4,902	500	854
Equity earnings of Donna Cona Inc.	-	-	-	12	62	40	35	45
Net earnings (loss)	\$ 1,432	\$ (393)	\$ 42	\$ 336	\$ (893)	\$ (3,969)	\$ (230)	\$ (1,975)
Basic and diluted earnings (loss) per share	\$ 0.15	\$ (0.04)	\$ 0.00	\$ 0.04	\$ (0.10)	\$ (0.41)	\$ (0.02)	\$ (0.20)

FOURTH QUARTER RESULTS

Fourth quarter services revenue was 6%, or \$2.2 million lower than the same period last year. The decrease was a result of a decline in U.S. operations revenue of \$3.8 million. The decrease in services revenue was offset by an increase in Canadian revenue of \$2.2 million, of which approximately \$1.1 million was a result of the acquisitions in the second quarter. The strengthening of the Canadian dollar reduced revenue by a further \$0.6 million. The ratio of compensation costs as a percentage of services revenue improved to 73% from 74%. Utilization increased from 69% to 73%. Average billable headcount decreased 5% from last year. Compensation costs were 8%, or \$2.2 million lower than last year. This decrease resulted from lower salary costs (\$1.1 million), due to the decline in headcount, the decrease in variable compensation, and lower usage of external consultants (\$0.7 million). U.S. compensation costs were also \$0.4 million lower, due to the strengthening of the Canadian dollar. Other costs decreased by \$0.8 million or 31% due to lower education, recruiting, promotion, and travel activities. Consequently, the ratio of other costs to services revenue declined to 5% from 7%. The gross margin percentage was 22%, as compared to 19%, and gross profit increased by \$0.5 million to \$7.4 million. General and administration costs decreased \$0.3 million from the prior year but remained at 15% of services revenue. The decrease was due to lower rent, a result of a one-time exit charge associated with sub-leasing excess space in the California region in 2003. All of these factors increased operating income before the restructuring charge by \$0.8 million to \$1.5 million. A non-cash valuation allowance of \$1.1 million was recorded, reducing the earnings per share by \$0.11.

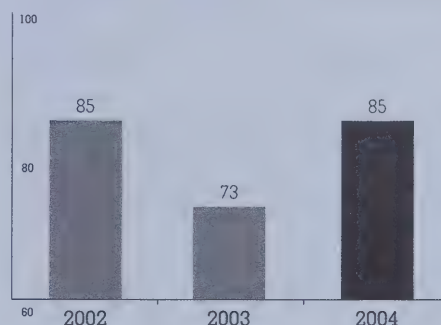
FINANCIAL CAPABILITY

Sierra Systems' need for capital is for working capital and for acquisitions. In fiscal 2004 net cash flow from operations was \$2.6 million, an increase of \$0.4 million from 2003.

Material areas of working capital are accounts receivable and work-in-progress ("WIP"). WIP represents services provided that have not yet been billed and is valued at estimated realizable value.

It is a function of large deliverable-based contracts. The source of cash from working capital arose from a \$2.8 million decrease in WIP as a result of the conclusion of material fixed price contract deliverables close to the year end.

The key performance measure of accounts receivable is average days sales in trade accounts receivable calculated on quarterly trailing revenue. There was significant decline in this measure at year end fiscal 2004 when compared to year end fiscal 2003. The measure deteriorated to 85 days from 73 days. The reason for this was the conversion of \$5.8 million of WIP to accounts receivable in September 2004. Subsequent to the fiscal year, much of these accounts receivable were collected. The Company has no provision for doubtful accounts. This is consistent with its historical experience and with its client profile.



Sierra Systems' requirement for capital assets is generally limited to personal computers, network applications and servers supporting our own employees, and furniture and fixtures for leased space. In fiscal 2004, the investment in capital assets was \$2.1 million, significantly lower than \$3.8 million in fiscal 2003. The decrease was due to \$1.8 million of expenditures to support the DMH contract experienced in 2003 that were not repeated in 2004. Sustaining capital expenditures for the Company's operations are now expected to be in the range of \$2.0 to \$2.5 million.

As described in note 7 of the financial statements, the Company has unused operating bank lines of credit of CDN \$20 million and US \$0.5 million with interest charged at bank prime rates. This is currently a low cost potential source of capital. At

the balance sheet date of September 30, 2004, the net cash and cash equivalents was \$0.8 million. Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with terms of three months or less. Eligible investments are government-issued securities or indebtedness of corporations with a debt rating of A or R-1 low.

The Company believes that its cash resources, together with the cash provided by future operations and available borrowings under its line of credit, will be sufficient to meet its working capital needs and capital expenditures.

The following table provides a summary of the contractual obligations and payments due for each of the next four years and thereafter.

CONTRACTUAL OBLIGATIONS	OPERATING LEASES
(in thousands)	
Less than 1 year	\$ 3,000
1 - 2 years	3,267
3 - 4 years	2,218
After 4 years	931
Total	\$ 9,416

RECENT ACCOUNTING CHANGES

As part of the Company's ongoing operations to provide services to its customers, out-of-pocket expenses, which are reimbursable under the terms of the contract, are billed to the customer. Previously, these amounts were treated as pass-through costs, and were not reflected in the consolidated statement of operations as revenue and a corresponding cost.

For the year ended September 30, 2004, the Company changed its method of recording reimbursements received for out-of-pocket expenses. These reimbursements are now reflected as "Reimbursements" revenue on the income statement and the corresponding expense is now included as a separate component of expenses. As such, there is no effect on earnings for the current or prior year. In accordance with Canadian Institute of Chartered Accountants (CICA) Handbook

section 1100, the 2003 comparative figures have not been restated to conform to the new presentation.

FUTURE ACCOUNTING CHANGES

On October 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, Stock based Compensation and Other Stock-based Payments. The recommendations were applied prospectively to all stock-based payments to employees and non-employees granted on or after October 1, 2002. The change in accounting policy did not result in an adjustment to the Company's opening retained earnings in fiscal 2004.

The Company uses the fair value based method to account for stock-based compensation costs arising from stock-based awards to non-employees. For stock-based awards to employees, the Company discloses the pro forma effect on net earnings and earnings per share as if the fair value based method of accounting had been used. As permitted by GAAP, the Company will expense stock-based compensation costs arising from the use of the fair valued based method to account for employee stock-based awards effective October 1, 2004.

The impact to the earnings per share in fiscal 2005 from the expense related to stock-based compensation (granted October 1, 2002 to December 10, 2004) is expected to be \$0.02.

CRITICAL ACCOUNTING ESTIMATES

Sierra Systems prepares its financial statements in accordance with GAAP. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an ongoing basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates

under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures and revenues for contracts accounted for on the percentage of completion basis, income tax valuation allowances, goodwill impairment tests, and the useful lives and valuation of intangible assets.

REVENUE RECOGNITION

In the case of fixed price projects, revenue is recognized on the basis of the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage of completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the project. This method requires estimates of costs and profits over the entire term of the project. Management regularly reviews underlying estimates of project profitability. Revisions to estimates are reflected in the consolidated statement of operations in the period in which the facts that give rise to the revision become known.

INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically. Management determines the likelihood that a future tax asset will be realized and will assess whether an allowance should be provided if realization is considered "more likely than not."

GOODWILL

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs an annual impairment test of its goodwill based on the market capitalization of the Company and an analysis of valuation metrics of comparable companies. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations.

INTANGIBLE ASSETS

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss, if any, is recognized in income for the excess.

BUSINESS RISKS

Sierra Systems is subject to various risks and uncertainties that can significantly affect its financial condition and future financial performance. We have a comprehensive planning process to identify and mitigate risk wherever possible. Key risks include the following.

FIXED PRICE CONTRACTS AND DELIVERY MANAGEMENT

Approximately half of Sierra Systems' contracts are fixed price contracts. There is a risk in all fixed price contracts that the Company will be unable to deliver under the contract within the time specified and at a cost to the Company that is equal to or less than the contract price. The technical nature and sophistication of the systems delivered under these contracts may require amendments to be negotiated from time to time, subject to agreed contract change processes. In the absence of any agreement to such amendments that increase the contract value or extend delivery time, clients may be in a position to terminate the contract for defaults or to demand repayments or penalties. To mitigate this risk, the Company has in place a Corporate Risk Management team to review project bids, contract negotiations and ongoing project performance, and to initiate and complete project audits as required. Notwithstanding that the Company, together with the client, constantly monitors these projects to determine early warnings related to these risks, a contract may end up in a default or in an overrun. A significant contract overrun that is caused by the actions or inactions of the Company could affect the Company's results of operations and financial condition.

MARKET AND COMPETITION

There are inherent risks in the market for information technology and consulting services. The industry is undergoing changes in the source of labor to produce core elements of these services, notably development services. Also, the trend to outsourcing, the transfer by a client of ownership of an application, function or entire business process to a third party, continues apace. The commoditization and globalization of certain elements of the market is not trivial. Sierra Systems believes that continued growth in this sector will require a broadening of its service offerings in application management services and the extension of its operational capability to include the use of offshore development resources. To the extent that the Company is unable to expand its service offerings or to penetrate this market in a timely and cost-effective manner, or achieve cost-effective pricing for its services, the Company's business growth could be adversely affected.

TECHNOLOGICAL CHANGES

The markets in which Sierra Systems operates are characterized by changing technology and evolving industry standards. The Company's ability to anticipate changes in technology, technical standards and service offerings is a significant factor in its ability to compete or expand into new markets. Sierra Systems has a Technology Council of Technology Directors spread throughout the organization. It is the Council's mandate to review technological trends and industry standards and position the Company to adjust its tactics accordingly. Despite decades of experience in meeting customer system requirements with the latest technological solutions, there can be no assurance that the Company will be successful in continuing to identify, develop and market service offerings that will respond to technological change, evolving standards or individual customer standards or requirements.

DEPENDENCE ON KEY PEOPLE

Sierra Systems' growth and continued success depend on its ability to attract, retain, train and motivate highly skilled people. There can be significant competition for such people and the Company has developed comprehensive People Programs designed to ensure its continued competitiveness. The current market environment has also improved retention. However, there can be no assurance that the Company can retain its current key employees or attract and retain additional employees as needed. The loss of certain key employees could have an adverse impact upon the Company's growth, business and profitability.

On November 15, 2004, the Board appointed an interim Chief Executive Officer (CEO) and the Company is currently conducting a search for a new CEO. There can be no guarantee this search will be successful.

GOVERNMENT CONTRACTS

In fiscal 2004, approximately 60% of Sierra Systems' total annual services revenue was derived from contracts with federal, state/provincial and local governments in both Canada and the U.S. Changes in government policies, priorities or funding levels through agency or program budget reductions, the impositions of budgetary constraints

or the lack of government appropriations could materially adversely affect the Company's financial condition or results or operations. Furthermore, government contracts may be terminated or suspended by the government at any time with or without cause. There can be no assurances that any contracts with the government will not be terminated or suspended in the future. Although the Company attempts to ensure that government contracts have, as standard provisions, termination for convenience language which reimburses the Company for costs incurred, the payments may not provide full compensation, in which case there may be an impact on the operations and financial condition of the Company.

POTENTIAL FOR LIABILITY

There is a risk that the Company's systems may contain errors or defects or fail to perform. The Company currently contractually limits its liability for damages arising from its provision of services. While this is true for the vast majority of the Company's contracts today, such limitations of liability may not have been included in all of the Company's contractual arrangements in the past. Where such limitations have been included, there can be no assurance that they will be enforceable in all circumstances and will protect the Company from liability for damages. Furthermore, litigation regardless of contracts could result in substantial cost to the Company, divert management's attention and resources from the Company's operation, and result in negative publicity that may impair the Company's ongoing marketing efforts. Although the Company purchases computer services errors and omission insurance, there is no assurance that this insurance will cover all possible claims or that claims will not exceed the insurance limit.

CURRENCY EXCHANGE RATE RISK

The Company has operations in the U.S. and is therefore exposed to fluctuations in the value of the U.S. dollar against the Canadian dollar. The Company's revenue and expenses in U.S. dollars largely offset each other, thereby creating a natural hedge. Also, the U.S. operations are currently deemed to be self-sustaining and therefore any translation adjustment of the U.S. asset base is recorded in shareholders' equity. However, if there is a material change in circumstances and if operations require the consistent support of the Canadian entity then the translation adjustment would be recorded in the statement of operations.

VOLATILITY OF QUARTERLY RESULTS

The Company's model is to sustain consistent long-term profitable growth. However, it contracts with its clients on an engagement-by-engagement basis that can lead to short-term fluctuations in revenue. This model is subject to quarterly variation that is not necessarily predictable. There may be reductions in operating results for a particular quarter that could result in losses for such quarter.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's most recently filed annual information form, can be found on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY

November 15, 2004

The consolidated financial statements of **Sierra Systems Group Inc.** have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

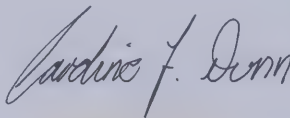
The Company's independent auditors, PricewaterhouseCoopers LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included on the following page.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed entirely of outside directors. This committee reviews the consolidated financial statements and the Management Discussion and Analysis and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.



Ian U. Reid

President and
Chief Executive Officer



Caroline J. Dunn

Vice President
and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Sierra Systems Group Inc.

We have audited the consolidated balance sheets of **Sierra Systems Group Inc.** as at September 30, 2004 and 2003 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.

November 12, 2004

(except for note 17, which is as at November 15, 2004)

CONSOLIDATED BALANCE SHEETS

As at September 30, 2004 and 2003

(in thousands of Canadian dollars)

	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	\$ 973	\$ 4,023
Accounts receivable	31,109	29,710
Work-in-progress	6,067	8,882
Prepaid expenses	2,184	2,171
	40,333	44,786
Intangible assets (note 4)	1,131	592
Property and equipment (note 5)	8,703	10,700
Future income taxes (note 8)	-	6,345
Goodwill	24,179	19,312
	\$ 74,346	\$ 81,735
LIABILITIES		
Current liabilities		
Bank indebtedness (note 7)	\$ 140	\$ 230
Accounts payable and accrued liabilities	14,203	14,421
Deferred revenue	1,911	974
Income taxes payable	670	304
Future income taxes (note 8)	-	2,390
Capital lease obligation	9	45
	16,933	18,364
Future income taxes (note 8)	352	440
	17,285	18,804
SHAREHOLDERS' EQUITY		
Capital stock (note 9(a))	44,191	41,320
Retained earnings	14,544	21,611
Cumulative translation adjustment	(1,674)	-
	57,061	62,931
	\$ 74,346	\$ 81,735

Commitments and contingencies (note 13)

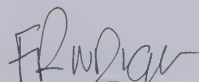
Subsequent event (note 17)

Approved by the Board of Directors



Ian U. Reid

Director



Frederick R. Wright

Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended September 30, 2004 and 2003

(in thousands of Canadian dollars)

	2004	2003
Retained earnings - Beginning of year	\$ 21,611	\$ 20,242
Net (loss) earnings for the year	(7,067)	1,417
Shares purchased and cancelled (note 9(e))	-	(48)
Retained earnings - End of year	\$ 14,544	\$ 21,611

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended September 30, 2004 and 2003

(in thousands of Canadian dollars except per share and share figures)

	2004	2003
REVENUE		
Services	\$ 139,711	\$ 147,997
Product sales	1,166	2,923
Reimbursements (note 2)	5,054	-
	145,931	150,920
EXPENSES		
Compensation costs	106,617	109,030
Other costs	8,154	9,747
Product costs	970	2,402
Reimbursable expenses (note 2)	5,054	-
	120,795	121,179
Gross profit	25,136	29,741
General and administration	19,789	19,786
Amortization (note 6)	3,980	3,356
Restructuring charge (note 10)	2,580	-
(Loss) earnings from operations	(1,213)	6,599
Foreign exchange loss	(49)	(2,402)
Other (expense) income	(7)	88
(Loss) earnings before income taxes	(1,269)	4,285
Provision for (recovery of) income taxes (note 8)		
Current	2,799	3,722
Future	3,181	(842)
	5,980	2,880
(Loss) earnings before equity accounted investee	(7,249)	1,405
Equity earnings of Donna Cona Inc. (note 12)	182	12
Net (loss) earnings for the year	\$ (7,067)	\$ 1,417
(Loss) earnings per share (note 11)	\$ (0.73)	\$ 0.15
Diluted (loss) earnings per share	\$ (0.73)	\$ 0.15
Weighted average number of common shares		
outstanding - basic	\$ 9,642,694	\$ 9,337,523
Weighted average number of common shares		
outstanding - diluted	\$ 9,642,694	\$ 9,459,123

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2004 and 2003

(in thousands of Canadian dollars)

	2004	2003
CASH FLOWS PROVIDED BY (USED IN)		
Operating activities		
Net (loss) earnings for the year	\$ (7,067)	\$ 1,417
Items not affecting cash		
Amortization	3,980	3,356
Future income taxes	3,181	(842)
Loss on disposal of property and equipment	324	-
	418	3,931
Net change in non-cash working capital items relating to operations	2,169	(3,172)
Net change in long-term accounts receivable	-	1,558
Shares purchased for long-term incentive plan	(35)	(192)
	2,552	2,125
FINANCING ACTIVITIES		
Shares issued (note 9(a))	288	337
Project financing - net	-	(995)
Shares purchased and cancelled (note 9(e))	-	(92)
Repayment of capital lease obligation	(36)	(145)
	252	(895)
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,110)	(3,752)
Business acquisitions (note 3)	(3,517)	-
	(5,627)	(3,752)
Effect of foreign exchange on translation	(137)	-
Decrease in cash and cash equivalents	(2,960)	(2,522)
Cash and cash equivalents - Beginning of year	3,793	6,315
Cash and cash equivalents - End of year	\$ 833	\$ 3,793
REPRESENTED BY		
Cash and cash equivalents	973	4,023
Bank indebtedness	(140)	(230)
	\$ 833	\$ 3,793

Supplementary cash flow information (note 16)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and 2003

(amounts in tables are in thousands of Canadian dollars except per share and share figures)

1. NATURE OF OPERATIONS

Sierra Systems Group Inc. (the Company), based in Vancouver, British Columbia, provides a full range of information technology services that enhance the competitive position of its clients throughout North America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries are Sierra Systems Consultants Inc. and Sierra Systems Inc. All intercompany transactions have been eliminated. The Company's interest in Donna Cona Inc. (DC) was recorded on a proportionate consolidation basis until June 30, 2003. Effective July 1, 2003, the Company relinquished joint control but maintained the ability to exercise significant influence over DC. From this date, the equity method was used to account for the Company's interest in this business.

REVENUE RECOGNITION

The Company provides a broad range of information technology consulting services to its clients through either time and materials or fixed price projects.

In the case of time and materials projects, revenue is recognized as the services are performed, when a contractual arrangement exists, the Company's fee is determinable and collection is reasonably assured.

In the case of fixed price projects, revenue is recognized on the basis of the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage of completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the project. This method requires estimates of costs and profits over the entire term of the project. Management regularly reviews underlying estimates of project profitability. Revisions to estimates are reflected in the consolidated statement of operations in the period in which the facts that give rise to the revision become known.

Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Project losses are measured by the amount by which the estimated costs of the project exceed the estimated total revenue from the project.

Work in progress represents services provided that have not yet been billed and is valued at estimated realizable value.

Deferred revenue includes billings in advance of services performed.

Product revenue is recognized when the product has been delivered to the customer, the fee is determinable, no significant vendor obligations remain and the collection of the agreed upon fee is reasonably assured.

As part of the Company's ongoing operations to provide services to its customers, out-of-pocket expenses, which are reimbursable under the terms of the contract, are billed to the customer. Previously, these amounts were treated as pass-through costs, and were not reflected in the consolidated statement of operations as revenue and a corresponding cost.

During the year ended September 30, 2004, the Company changed its method of recording reimbursements received for out-of-pocket expenses. These reimbursements are now reflected as "Reimbursements" revenue on the income statement and the corresponding expense is now included as a separate component of expenses. As such, there is no effect on earnings for the current or prior year. In accordance with Canadian Institute of Chartered Accountants (CICA) Handbook section 1100, the 2003 comparative figures have not been restated to conform to the new presentation.

TRANSLATION OF ACCOUNTS OF FOREIGN SUBSIDIARIES

Effective October 1, 2003, the Company's U.S. subsidiaries were classified as self-sustaining foreign operations. Revenues and expenses are now translated at average exchange rates prevailing during the period. The assets and liabilities of the U.S. operations are translated at the exchange rate in effect at the balance sheet date, and any translation gains or losses are accounted for in a separate component of shareholders' equity. Prior to October 1, 2003, the Company's foreign operations were considered integrated (financially and operationally dependent on the parent).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with terms at the date of purchase of three months or less.

INTANGIBLE ASSETS

The Company's intangible assets relate to a favourable contract entered into on July 1, 2003 and customer relationships resulting from the acquisition of Eastbridge Consulting Incorporated and its subsidiary, Eastech Advanced Development Incorporated. The contract is amortized over its four year term on a straight-line basis, while the customer relationships are amortized over their economic life of 45 months on a straight-line basis (note 4).

PROPERTY AND EQUIPMENT

Property and equipment are carried at the lower of cost, less accumulated amortization, and net recoverable amount. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets at the following rates:

Computer hardware	4 years
Computer software	3 years
Enterprise application software	8 years
Furniture and equipment	7 years
Leasehold improvements	over the remaining life of the lease

GOODWILL

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performed an annual impairment test of its goodwill based on (a) the market capitalization of the Company and (b) an analysis of valuation metrics of comparable companies, and has determined that no goodwill impairment charge is required.

INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted earnings per share. Under this method, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive stock options are applied to repurchase common shares at the average market price for the period. Stock options are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the determination of percentage of completion of projects, estimated project costs and revenues for contract revenue recognition and estimates in relation to accrued liabilities and future income tax balances. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

STOCK-BASED COMPENSATION PLANS

On October 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, Stock-based Compensation and Other Stock based Payments. The recommendations were applied prospectively to all stock-based payments to employees and non employees granted on or after October 1, 2002. The change in accounting policy did not result in an adjustment to the Company's opening retained earnings.

The Company uses the fair value based method to account for stock-based compensation costs arising from stock-based awards to non-employees. For stock-based awards to employees, the Company discloses the pro forma effect on net earnings and earnings per share as if the fair value based method of accounting had been used. As permitted by the Section, the Company will expense stock-based compensation costs arising from the use of the fair valued based method to account for employee stock-based awards effective October 1, 2004.

The Company has three stock-based compensation plans described in note 9:

- a) Under the Employee Share Ownership Plan (ESOP), a 15% subsidy provided by the Company is recognized as compensation expense when the shares are purchased.
- b) Under the stock option plan, no compensation expense is recognized when stock and stock options are issued to employees and directors. Any consideration paid by employees and directors on exercise of options or purchase of stock is credited to capital stock.
- c) Under the Long-Term Incentive Plan, common share based awards are recognized as compensation expense on a straight-line basis over the vesting period.

3. BUSINESS ACQUISITIONS

EASTBRIDGE CONSULTING INCORPORATED

On January 1, 2004, the Company acquired all of the outstanding shares of Eastbridge Consulting Incorporated and its subsidiary, Eastech Advanced Development Incorporated, for a total consideration of \$5,948,000. The two companies provide information technology consulting services and are headquartered in Halifax, Nova Scotia. The Company began recording the results of operations of the acquired entities on the effective date of acquisition. The acquisition was accounted for using the purchase method, with none of the amount recorded as goodwill being deductible for tax purposes. The fair value of the common shares issued as consideration was determined using the average closing share price on the Toronto Stock Exchange over the ten working days ended December 24, 2003. The purchase price was allocated to the fair value of the assets acquired and liabilities assumed as follows:

Net assets at fair values	
Current assets	\$ 1,356
Current liabilities	(1,235)
Property and equipment	277
Intangible assets	683
Goodwill	4,867
Cost of acquisition	\$ 5,948
Consideration:	
Cash (including acquisition costs)	3,517
Common shares (342,892 shares)	2,431
	\$ 5,948

Of the consideration paid, \$1,799,000 in cash and 253,710 shares (note 9(c)) are held in escrow and will be released to certain vendors contingent upon their employment with the Company; \$632,000, \$632,000 and \$535,000 and 89,182; 89,182 and 75,346 shares will be released on January 1, 2005, 2006 and 2007, respectively.

INSI STRATEGIC TECHNOLOGIES INC. (INSI)

Pursuant to the acquisition of INSI on June 1, 2002, cash consideration of \$82,000 (2003 - \$2,980,000) is held in escrow to be released on June 1, 2005 to certain vendors contingent upon their continued employment with the Company.

4. INTANGIBLE ASSETS

				2004
	Cost	Accumulated amortization		Net
Customer relationships with an economic life of 45 months	\$ 683	\$ 138	\$	545
Sub-contracting agreement from Donna Cona Inc.	813	227		586
	\$ 1,496	\$ 365	\$	1,131

				2003
	Cost	Accumulated amortization		Net
Sub-contracting agreement from Donna Cona Inc.	\$ 631	\$ 39	\$	592

5. PROPERTY AND EQUIPMENT

				2004
	Cost	Accumulated amortization		Net
Computer hardware	\$ 12,558	\$ 9,799	\$	2,759
Computer software	5,756	4,836		920
Enterprise application software	2,033	380		1,653
Furniture and equipment	7,652	5,292		2,360
Leasehold improvements	2,924	1,913		1,011
	\$ 30,923	\$ 22,220	\$	8,703

				2003
	Cost	Accumulated amortization		Net
Computer hardware	\$ 13,090	\$ 9,206	\$	3,884
Computer software	5,816	4,418		1,398
Enterprise application software	1,347	210		1,137
Furniture and equipment	8,432	5,393		3,039
Leasehold improvements	2,773	1,531		1,242
	\$ 31,458	\$ 20,758	\$	10,700

Included in property and equipment are assets purchased under capital leases with a cost of \$309,000 (2003 - \$309,000) and accumulated amortization of \$251,000 (2003 - \$208,000).

6. AMORTIZATION

	2004	2003
Amortization of property and equipment	\$ 3,654	\$ 3,317
Amortization of customer relationships	138	—
Amortization of sub-contracting agreement from Donna Cona Inc.	188	39
	\$ 3,980	\$ 3,356

7. BANK INDEBTEDNESS

To finance operating requirements, the Company has revolving bank credit facilities of \$20,100,000 and US\$500,000 which are secured by a general security agreement over all assets of the Company and bear interest at bank prime rate plus 0.25%. The US\$500,000 facility is guaranteed by the Company until December 31, 2004. The credit facilities include covenants that require the Company to maintain certain financial ratios.

Sierra Systems Inc. and the Company have revolving guarantees relating to the borrowings of Sierra Systems Consultants Inc. in the amount of \$25,000,000 each. These guarantees are secured by the assets of the respective entities.

8. INCOME TAXES

	2004	2003
(Loss) earnings before income taxes	\$ (1,269)	\$ 4,285
Expected provision based on a tax rate of 36.1% (2003 - 38.1%)	(458)	1,633
Increase (decrease) resulting from		
Non-deductible expenses	322	213
Foreign exchange losses	—	875
Foreign tax differential	192	142
Canadian statutory rate differential	92	17
Change in valuation allowance for U.S. net operating loss carry-forwards	5,712	358
Foreign exchange differential on U.S. valuation allowance	292	147
Tax recovery realized	(425)	—
Other	253	(505)
Income tax provision	\$ 5,980	\$ 2,880

As at September 30, 2004, the Company's future tax assets and liabilities were as follows:

	U.S. companies	2004 Canadian companies	U.S. companies	2003 Canadian companies
Differences in working capital deductions for tax and accounting purposes	\$ (1,727)	\$ 61	\$ (2,390)	\$ 31
Property and equipment	248	(432)	(23)	(472)
Goodwill	—	19	—	19
Loss carry-forwards	8,307	—	7,466	—
Valuation allowance	(6,828)	—	(1,116)	—
Total net future tax assets (liabilities)	\$ —	\$ (352)	\$ 3,937	\$ (422)

Comprising

Non-current asset	—	6,345
Current liability	—	(2,390)
Non-current liability	(352)	(440)
	<u>\$ (352)</u>	<u>\$ 3,515</u>

The following table provides details of net operating loss carry-forwards of Sierra Systems Inc.:

Expiry date	Loss carry-forwards US\$
2020	\$ 1,879
2021	681
2022	3,988
2023	5,009
2024	4,820
	<u>\$ 16,377</u>

During the year, the Company took advantage of new U.S. tax net operating loss carry-back rules and applied US\$1.3 million of losses expiring in 2021 to realize a tax recovery of US\$440,000.

9. CAPITAL STOCK AND STOCK OPTIONS

a) Capital stock

Authorized

100,000,000 common shares without par value

50,000,000 preferred shares without par value

Issued

	2004		2003	
	Common shares	Amount	Common shares	Amount
Balance - Beginning of year	9,344,843	\$ 41,320	9,324,827	\$ 41,147
Issued pursuant to the ESOP	39,881	282	45,574	337
Exercise of options	1,000	6	-	-
Issued for acquisition (note 3)	342,892	2,431	-	-
Shares purchased for long-term incentive plan	(7,100)	(35)	(25,407)	(192)
Long-term incentive plan shares vested	25,326	187	9,849	72
Shares purchased and cancelled	-	-	(10,000)	(44)
Balance - End of year	9,746,842	\$ 44,191	9,344,843	\$ 41,320

b) Stock options

The Company has a stock option plan which grants to directors and certain employees of the Company the option to purchase up to 1,312,900 common shares of the Company. The exercise price of each option is determined to be the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options generally vest over three to five years.

Under this plan, had compensation costs been determined using the fair value based method at the date of the grant for awards granted to directors and employees since October 1, 2002, the Company's pro forma net (loss) earnings, and basic and diluted (loss) earnings per share, would have been as follows:

	2004	2003
Net (loss) earnings - as reported	\$ (7,067)	\$ 1,417
Adjustment to net (loss) earnings	503	188
Pro forma net (loss) earnings	\$ (7,570)	\$ 1,229
Basic and diluted (loss) earnings per share - as reported	\$ (0.73)	\$ 0.15
Pro forma basic and diluted (loss) earnings per share	\$ (0.79)	\$ 0.13

Assumptions used in the Black-Scholes option pricing model:

	2004	2003
Dividend yield	0%	0%
Expected volatility	35% - 43%	29% - 51%
Risk-free interest rate	2.3% - 3.2%	3.5% - 4.2%
Expected life (years)	1 - 4	1 - 4
Weighted average grant date fair value	\$6.49	\$7.86

The following table summarizes the movement in options outstanding under the plan:

	Share options outstanding	2004 Weighted average exercise price	Share options outstanding	2003 Weighted average exercise price
Balance - Beginning of year	1,196,460	\$ 14.32	1,043,957	\$ 15.60
Options granted	146,200	6.49	208,200	7.86
Options exercised	(1,000)	6.35	—	—
Options expired	(442,560)	19.43	(23,000)	18.13
Options cancelled	(48,800)	13.85	(32,697)	11.34
Balance - End of year	850,300	\$ 10.36	1,196,460	\$ 14.32

The following table provides details of options outstanding at September 30, 2004:

Options outstanding				Options exercisable	
Range of exercise price (\$)	Number of options	Weighted average contractual life (years)	Weighted average exercise price (\$)	Number exercisable	Weighted average exercise price (\$)
\$ 4.95	52,000	5.5	\$ 4.95	—	\$ —
5.15 - 6.35	147,200	2.2	6.05	127,200	6.03
6.50 - 7.70	231,100	3.2	7.26	182,500	7.30
7.74 - 8.90	209,800	2.4	7.97	95,800	7.93
10.65 - 13.50	38,400	0.9	12.00	38,400	12.00
15.50 - 18.50	65,600	1.0	17.79	53,900	17.63
\$21.75 - 26.50	106,200	0.3	25.25	106,200	25.25
	850,300	2.3	\$ 10.36	604,000	\$ 11.51

c) Shares held in escrow

	Balance September 30 2003	Added during the year	Released during the year	Balance September 30 2004
Acquisition of INSI	63,766	—	63,766	—
Acquisition of Eastbridge Consulting Incorporated	—	253,170	—	253,170
	63,766	253,170	63,766	253,170

The common shares held in escrow relating to the acquisition of Eastbridge Consulting Incorporated will be released on January 1, 2005, 2006 and 2007.

d) **Employee Share Ownership Plan (ESOP)**

The ESOP permits all full-time employees of the Company to purchase common shares through payroll deductions. Shares are purchased quarterly at prevailing market prices with a 15% subsidy from the Company. During the year, the Company contributed \$74,000 (2003 - \$94,000) and issued 39,881 shares (2003 - 45,574) pursuant to this plan. The contributed amount has been included in compensation expense in the consolidated statement of operations.

e) **Shares purchased and cancelled**

On January 21, 2003, the Company initiated its first normal course issuer bid. Under the bid, the Company had the right to purchase for cancellation up to a maximum of 400,000 of its common shares (representing approximately 4.25% of the Company's outstanding shares) over the following 12 months through the facilities of the Toronto Stock Exchange. During the year ended September 30, 2003, the Company acquired 10,000 shares at an average price of \$9.20.

f) **Long-Term Incentive Plan**

Certain key employees are provided with common share-based awards. The funding for awards under this plan is paid into a trust, which purchases common shares of the Company on the open market. The shares are recorded as treasury stock and are presented as a reduction of capital stock. For participating employees, full vesting occurs upon three years of service. Compensation expense is recognized on a straight-line basis over the vesting period and amounted to \$183,000 (2003 - \$206,000).

During the year the Company provided funding of \$35,000 (2003 - \$192,000) that was used to acquire 7,100 (2003 - 25,407) common shares of Sierra Systems Group Inc.

10. RESTRUCTURING CHARGE

	Charged during the year	Payable at September 30 2004
Workforce reduction	\$ 1,341	\$ 1,075
Lease termination	973	463
Other	266	64
	\$ 2,580	\$ 1,602

Due to poor financial performance during the year, the Company restructured its U.S. operations, which included closing the Washington, D.C. branch, reducing its workforce and rationalizing its office space in California. The workforce reduction charge consists primarily of severance and other related benefits resulting from the termination of employees. No further terminations in connection with this restructuring are expected, and the related unpaid balances are included in accrued liabilities.

As part of the restructuring, the Company gave notice to terminate its current Los Angeles lease space effective April 14, 2005, in order to pursue a more suitably sized space at a favourable rent. The Company incurred a termination fee of US\$733,678 (CA\$973,003), of which 50%, or US\$366,839 (CA\$486,502), was paid upon notice to the landlord. The balance is payable on or before April 14, 2005 and is included in accrued liabilities.

Other restructuring charges include the relocation of management personnel and the writedown and relocation of property and equipment. These activities were completed as of September 30, 2004.

11. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share are calculated based upon the weighted average number of common shares outstanding during the period.

Diluted (loss) earnings per share calculations, if dilutive, include the effect of common stock options using the treasury stock method. The calculation of basic and diluted (loss) earnings per share is as follows:

	2004	2003
Basic (loss) earnings per share		
Net (loss) earnings	\$ (7,067)	\$ 1,417
Weighted average number of common shares outstanding	9,642,694	9,337,523
Basic (loss) earnings per share	(0.73)	0.15
Diluted (loss) earnings per share		
Net (loss) earnings	\$ (7,067)	\$ 1,417
Weighted average number of common shares outstanding	9,642,694	9,337,523
Dilutive instruments	—	121,600
Total shares	9,642,694	9,459,123
Diluted (loss) earnings per share	\$ (0.73)	\$ 0.15

The computation of diluted (loss) earnings per common share does not include 850,300 options (2003 - 739,560) as they were anti-dilutive.

12. INVESTMENT IN DONNA CONA INC. (DC)

The Company entered into an agreement in August 2002 to relinquish its 49% interest in DC (formerly Donna Cona II Inc.) through four equal instalments over a four-year period. The instalments commenced on July 1, 2003, at which time the Company began using the equity method to account for its remaining interest. Prior to this, the proportionate consolidation method was used to account for the investment in DC, as joint control existed. At September 30, 2004, the Company held a 32% interest (2003 - 42%) in DC.

The following amounts represented the Company's proportionate interest in DC for the nine months to June 30, 2003:

	2003
Revenue	\$ 4,517
Expenses	4,358
Net earnings	159
Cash flows from operating activities	208
Cash flows from investing activities	(5)

During the year, the Company recorded revenues of \$2,140,000 (2003 - \$1,245,000) from DC, of which \$366,000 was included in accounts receivable at September 30, 2004 (2003 - \$221,000).

13. COMMITMENTS AND CONTINGENCIES

The Company is committed to minimum annual lease payments on its premises, excluding operating costs, as follows:

2005	\$	3,000
2006		1,743
2007		1,524
2008		1,168
2009		1,050
2010 and thereafter		931
	\$	9,416

During the year, the Company incurred \$5,309,000 for rent expense. The Company has posted performance bonds relating to certain projects with a total value of US\$12 million. These expire on the satisfactory completion of the contracts. Letters of credit of US\$2.1 million are pledged as collateral for these bonds.

14. BUSINESS SEGMENT INFORMATION

The Company operates in one operating segment – providing IT services. The Company operates primarily in Canada and the United States. Geographical information is based upon the country in which the Company's operations are located.

	Canada	United States	Total
2004			
Revenue	\$ 106,595	\$ 39,336	\$ 145,931
Property and equipment and goodwill	\$ 30,827	\$ 2,045	\$ 32,872
2003			
Revenue	\$ 98,755	\$ 52,165	\$ 150,920
Property and equipment and goodwill	\$ 26,379	\$ 3,633	\$ 30,012

During the year ended September 30, 2004, no single customer accounted for 10% or more of total revenue. In 2003, revenues from one customer constituted 10% of total revenue.

15. FINANCIAL INSTRUMENTS

a) Financial risk

Financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency risk. Compensation and other costs in U.S. dollars significantly offset sales in U.S. dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

b) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company's risk relating to its trade receivables is limited due to the wide variety of customers and markets into which the Company's services are sold.

c) Fair values

The fair values of the Company's cash and cash equivalents, accounts receivable, including work-in-progress, and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short term maturity of these financial instruments.

16. SUPPLEMENTARY CASH FLOW INFORMATION

	2004	2003
INTEREST AND INCOME TAXES		
Interest paid	\$ 78	\$ 72
Interest received	68	170
Income taxes paid	3,050	3,617
Income taxes refunded	1,191	1,127
 NON-CASH FINANCING ACTIVITIES		
Shares issued for acquisition	2,431	-

17. SUBSEQUENT EVENT

Effective November 15, 2004, the President and Chief Executive Officer left the Company. A termination agreement has been executed and the Company will record a charge of approximately \$960,000 in the first quarter of fiscal 2005 in connection with these arrangements.



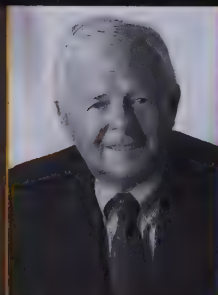
IAN U. REID



CAROLINE J. DUNN



R. M. KENT MEISNER



PETER F. WEBB



J. IAN GIFFEN

NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Cheakamus Room at The Fairmont Waterfront, 900 Canada Place Way, Vancouver, BC, V6C 3L5, on Monday, February 28, 2005 at 11:00 a.m. PST.

All shareholders are cordially invited to attend.

DIRECTORS & OFFICERS

BOARD OF DIRECTORS

Ian U. Reid

President and
Chief Executive Officer

Peter F. Webb

Chairman of the Board

J. Ian Giffen

Director

Grant R. Gisel

Director

Robert W. Murdoch

Director

Eric Rosenfeld

Director

John A. Vivash

Director

Frederick R. Wright

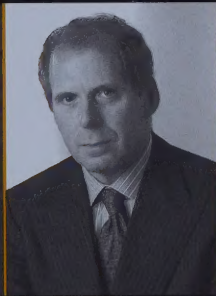
Director



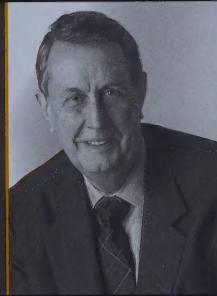
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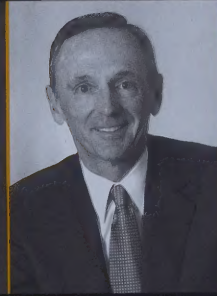
ROBERT W. MURDOCH



ERIC ROSENFELD



JOHN A. VIVASH



FREDERICK R. WRIGHT

OFFICERS

Ian U. Reid

President and
Chief Executive Officer

Caroline J. Dunn

Vice President and Chief Financial Officer,
Corporate Secretary

R. M. Kent Meisner

Executive Vice President, U.S. Operations

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Fax: 604.688.6482

STOCK EXCHANGE

Toronto Stock Exchange
Trading Symbol — SSG

TRANSFER AGENT

CIBC Mellon Trust
Vancouver, BC

BANKER

Royal Bank of Canada
Vancouver, BC

LEGAL COUNSEL

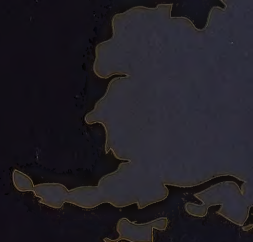
Lang Michener
Barristers & Solicitors
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Chartered Accountants
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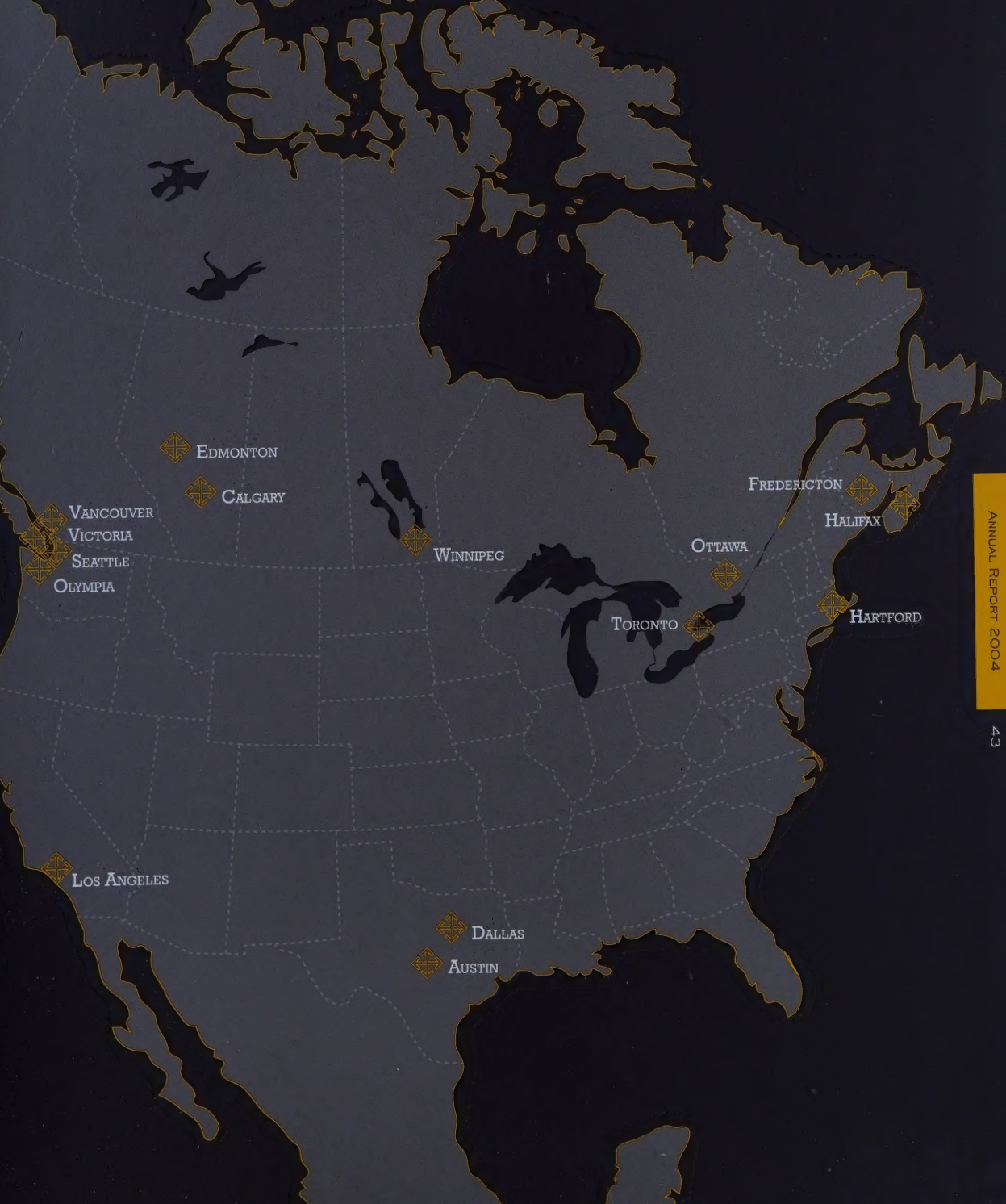
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